

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Nanci E. Langley

Periodic Reporting  
(Proposal Two)

Docket No. RM2015-10

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSAL TWO)

(Issued September 3, 2015)

I. INTRODUCTION

The Postal Service's petition, filed pursuant to 39 C.F.R. § 3050.11, requests that the Commission initiate a rulemaking proceeding to consider a proposal (Proposal Two) to change the analytical methods approved for use in periodic reporting.<sup>1</sup> Proposal Two seeks to replace the traditional Imputed and Booked versions of the International Cost and Revenue Analysis (ICRA) report with a single Unified version. *Id.*, Proposal Two at 1. The Postal Service provided supporting materials related to Proposal Two under seal.<sup>2</sup>

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), June 17, 2015 (Petition).

<sup>2</sup> Notice of Filing of USPS-RM2015-10/NP1 and Application for Nonpublic Treatment, June 17, 2015. The Postal Service later filed an updated Preface to Library Reference USPS-RM2015-10/NP1; Notice of The United States Postal Service of Filing of Revised Preface to USPS-RM2015-1/NP1 – Errata, June 24, 2015.

On June 19, 2015, the Postal Regulatory Commission (Commission) issued Order No. 2548, which initiated this rulemaking proceeding, provided for the submission of comments and reply comments, and appointed a Public Representative.<sup>3</sup> The Public Representative filed comments in response to Order No. 2548 on July 30, 2015.<sup>4</sup> No other comments were filed. For the reasons discussed below, the Commission approves this proposal.

## II. BACKGROUND

The ICRA report provides financial data related to revenue and costs associated with the acceptance and delivery of international mail. Costs associated with international mail include expenses for processing, collection, domestic transportation, international transportation, and settlement payments by the Postal Service to foreign postal operators for the delivery of U.S.-origin mail by the foreign postal operators. Revenue associated with international mail is derived from settlement payments from foreign postal operators to the Postal Service for the delivery of inbound mail in the U.S.

In Docket No. RM2009-10, the Commission approved the Postal Service's proposal to file the Imputed and Booked versions of the ICRA report.<sup>5</sup> The Imputed version of the ICRA report estimates costs and revenue from settlement payments for international mail based upon known rates of reimbursement, which are established through the Universal Postal Union (UPU) and vary by country. The Booked version reports the settlement transactions that have occurred between the Postal Service and foreign postal operators and is tied to the amounts reported in the Postal Service's audited financial statements. Traditionally, the UPU rules for settlement transactions

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<sup>3</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), June 19, 2015 (Order No. 2548).

<sup>4</sup> Public Representative Comments on Proposed Changes in Analytical Principles Used in Periodic Reporting (Proposal Two), July 30, 2015 (PR Comments).

<sup>5</sup> Docket No. RM2009-10, Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen), November 13, 2009, at 26.

between the Postal Service and foreign postal operators allowed for settlement payments to occur after the close of the fiscal year. Thus, to account for this delay, the Booked version uses the accrual accounting method to estimate what the final settlement payments would be; these estimated amounts are referred to as “booked” amounts for financial reporting purposes.

In Order No. 1516, the Commission approved the use of the Foreign Payment Settlement (FPS) system as the sole source for the reporting of inbound international revenue, pieces, and weight (RPW) in the ICRA report.<sup>6</sup> When approving the use of the FPS system, the Commission lauded the Postal Service’s efforts to eliminate the differences in reported inbound revenue between the Imputed and Booked versions of the ICRA. *Id.* at 6. Additionally, the Commission encouraged the Postal Service to make additional changes to permit the reporting of financial results in one version of the ICRA report that is consistent with the Postal Service’s other financial reports. *Id.* at 7. During subsequent Annual Compliance Report (ACR) dockets, Chairman’s Information Requests inquired about the status of reporting a unified ICRA report.<sup>7</sup>

### III. PROPOSAL TWO

#### A. Postal Service Proposal

The Postal Service proposes to replace the traditional Imputed and Booked versions of the ICRA report with a single Unified version. Petition, Proposal Two at 1. Proposal Two incorporates a number of files and calculations from the Imputed version into the Booked version of the ICRA report. *Id.* at 4-6. Specifically, the Postal Service states that the cost analysis by country and by country group used in the Imputed version must be included in the Unified version because the Postal Service’s audited

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<sup>6</sup> Docket No. RM2012-7, Order on Analytical Principles Used in Periodic Reporting (Proposals Six and Seven), October 24, 2012, at 2 (Order No. 1516).

<sup>7</sup> See Docket No. ACR2013, Chairman’s Information Request No. 6, question 6, February 7, 2014; Docket No. ACR2014, Chairman’s Information Request No. 1, question 9, January 9, 2015.

financial statements do not provide financial data disaggregated at a country level. *Id.* at 5. Additionally, the Postal Service proposes to import two worksheets from the Imputed version of the ICRA report into the Unified version: (1) the cost and revenue analysis (CRA) staging worksheet, which develops domestic mail processing, delivery, and other costs; and (2) the Cost Segment 14 staging worksheet, which transfers domestic transportation costs from the Excel workbook file, "Domestic Trans Calcs." *Id.*

The Postal Service also states that Proposal Two requires a minor modification to how it calculates transportation costs for outbound mail. Under the current method, the international transportation cost scaling calculation on the "tranadj" table of the "Outbound Calcs" workbook utilizes an adjustment based on the imputed costs for negotiated service agreements (NSAs). *Id.* Since the Petition proposes to discontinue the Imputed version, these imputed costs will no longer be available. *Id.* Accordingly, the Postal Service's proposal requires references to imputed NSA costs to be replaced with results from the Booked version of the ICRA report. *Id.* at 5-6.

## B. Comments

The Public Representative filed comments on July 30, 2015. No other comments were received. The Public Representative recommends that the Commission approve Proposal Two. PR Comments at 1. He outlines the origins and the evolution of the ICRA report and the creation of the Imputed and Booked versions. He notes that the Postal Service first utilized the FPS system to develop inbound international RPW data in the FY 2012 ACR. *Id.* at 5. Since the Postal Service began using the FPS system, differences between the Imputed and Booked versions of the ICRA report have almost been eliminated, decreasing to one percent or less. *Id.* at 6. He recommends that the Commission approve the proposal because use of the Unified version will streamline the production of the ICRA report and a single version will simplify the process by which the Commission reviews the volume, revenue, and costs of international mail. *Id.* at 8. Additionally, he states that the Unified version of the ICRA report will end the Postal Service's practice of preparing financial models for international NSAs using results

from the Imputed version of the ICRA report while the Commission's review of such NSAs during ACR proceedings relies on financial data from the Booked version. *Id.*

#### IV. COMMISSION ANALYSIS

The Commission approves Proposal Two. The Commission finds that a Unified version of the ICRA report, as proposed, will provide accurate and reliable financial data on international mail. The Commission finds that using a Unified version of the ICRA report to analyze international mail will clarify and enhance the quality and accuracy of analysis by ensuring interested parties are evaluating the same data source. In light of the minimal differences between the two versions in recent years and based on the methods the Postal Service proposes for unifying the two versions, the Commission finds that use of a single Unified version of the ICRA report will clarify and improve the data and the related analyses without sacrificing completeness.

This improvement will be apparent in future analyses of international NSAs. Currently, when the Postal Service seeks approval of a new international NSA, it supports its request with data from the Imputed version of the ICRA report. Consistent with the current accepted methodology, the Postal Service and the Commission then analyze the NSA's performance using the Booked version of the ICRA report in the yearly ACR docket. As part of Proposal Two, the Postal Service will discontinue the production of the Imputed version of the ICRA report. Petition, Proposal Two at 5-6. Therefore, in future requests by the Postal Service to approve new International NSAs, the Commission expects the Postal Service will prepare its financial models using costing data from the Unified version of the ICRA report. When the Commission reviews such NSAs during the ACR proceeding, the Commission will use financial data from the same source, the Unified version of the ICRA report. As envisioned by 39 C.F.R. § 3050.11(a), this change will improve the quality and accuracy of both Postal Service and Commission analyses using the ICRA report.

*It is ordered:*

For purposes of periodic reporting to the Commission, the Commission approves the changes in analytical principles proposed by the Postal Service in Proposal Two as set forth in the body of this Order.

By the Commission.

Shoshana M. Grove  
Secretary